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One-Fifth of Uninsured Have Access to — But Decline — Employer Coverage

Two-Thirds Cite Cost as Main Reason; GOP Bills to the Rescue

In the debate over patients' rights legislation, many are begging Congress not to impose expensive health benefit mandates on employers. They argue that if government makes health coverage too costly, employers will stop offering it to their employees. According to the Kaiser Commission on Medicaid and the Uninsured, employer-sponsored coverage has already eroded:

> *[T]he proportion of private sector workers with any employment-related health coverage declined by 7 percentage points between 1979 and 1993, falling from 71 percent to 64 percent.*

While employer coverage has remained "relatively stable" since 1993, this erosion is one reason the number of uninsured Americans reached 44.3 million in 1998.

However, there is another reason why millions of workers lack coverage. According to a report released this week by the Center for Studying Health System Change (funded by the Robert Wood Johnson Foundation), workers themselves decline health coverage when it becomes too expensive.

- In 1996 and 1997, approximately 7.3 million uninsured Americans had access to health coverage through an employer but turned that coverage down. This includes 2.2 million children.

- This accounted for 20 percent of all uninsured Americans, *i.e.* **one-fifth of America's uninsured are workers themselves turning down available coverage.**

- "[T]wo-thirds of all uninsured workers and three-fourths of low-income uninsured workers **cited cost as the main reason for declining coverage.**"

- According to the *Washington Post* (9/19/99), as many as 200,000 federal workers turn down health coverage because premiums are too expensive.

- Uninsured workers who decline employer coverage are disproportionately young adults, low-wage earners, minorities, or in poor health.

Just as employers stop offering health coverage when it becomes too expensive, many workers decline available coverage for the same reason.

The report explains how the ranks of the uninsured have swelled and identifies certain factors that might increase their ranks even further:

> *[P]ast increases in premiums and in the employee share of the premium have made the cost prohibitively high for many low-income workers.*
>
> *A return to large annual increases in health insurance premiums — as some are predicting — could further erode the affordability of employer-sponsored coverage for some workers.*
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> *Many also fear that pressure to increase premiums could arise from legislation that would regulate managed care plans — such as patients' bill of rights legislation — and other health insurance reforms. Given the important role that costs play in a worker's decision not to enroll in an employer-sponsored plan, large increases in health insurance premiums or increases in the proportion of the premiums that employees pay could result in more employees opting out of coverage, especially lower-income workers.*

The report validates Republicans' approach to patients' rights: enact patient protections without increasing costs or otherwise reducing access to health coverage.

GOP Makes Coverage Affordable with Individual Deductibility, MSAs

The report also suggests that fixing the inequalities in the tax code is the best way Congress can make health insurance more accessible to the uninsured:

> *Enrolling all or most [workers] in employer-sponsored plans that are available to them* ***would do more to decrease the number of uninsured than*** *other incremental expansions that have passed in recent years or that are being considered, including* ***the State Children's Health Insurance Program and Medicare buy-ins for the near elderly****.*

The report points toward tax reforms — like those contained in the Republican patients' rights legislation passed by the Senate (S. 1344) and the health insurance access bill passed by the

House (H.R. 2990) — as a means to enroll uninsured workers in their employers' health plans.

H.R. 2990 phases in an above-the-line, 100 percent tax deduction for health insurance expenses of people without employer-provided coverage and of people with employer-sponsored coverage where the employer pays less than 50 percent of cost. In its first year (when the deduction is only 25 percent) this provision will make coverage more affordable for 9.1 million Americans, including 200,000 uninsured, according to the Joint Committee on Taxation. Yet the Center for Studying Health Systems Change suggests going even further:

> *Since cost appears to be the major barrier for those who do not enroll in plans, one option is to offer additional financial incentives to enroll, such as* ***extending eligibility of the modest tax subsidies being proposed for persons who do not have access to employer-sponsored coverage to include those that do****.*

The report makes a strong case for *expanding* H.R. 2990's "modest" deduction to cover all worker contributions to their health benefits. This would reduce the cost of insurance to all workers who currently decline their employer-sponsored coverage, irrespective of how much the employer chooses to contribute.

Moreover, both H.R. 2990 and S. 1344 already contain access provisions that, as the Center for Studying Health Systems Change recommends, are also "available for those low-income persons who are already enrolled in employer-sponsored plans." Both bills open up the limited medical savings account (MSA) demonstration project and make MSAs available to everyone, whether through an employer or the individual market.

The MSA concept combines a high-deductible catastrophic health insurance policy with a tax-preferred savings account for medical expenses. Consumers (or their employers) deposit pre-tax dollars into the MSA, which covers out-of-pocket costs. If medical expenses exceed the catastrophic policy deductible, insurance takes over. Whatever MSA participants do not spend is theirs to keep (and grows tax-free).

The MSA demonstration project is presently hampered by Democrat-imposed restrictions designed to cripple the program. Nonetheless, the General Accounting Office reports that one-third of all MSAs are sold to people who were previously uninsured. These could be people who are self-employed and purchase MSAs on their own, whose employers were able to provide coverage for the first time with an MSA, or who finally signed up for coverage on the job once their employer offered an MSA option.

Both S. 1344 and H.R. 2990 would expand the demonstration project by eliminating the following barriers that make MSAs inflexible and difficult to obtain:

- Currently, the uninsured can *only* get an MSA if they are self-employed or their employer offers one. The Republican access legislation **makes**

MSAs available to everyone.

- Limits on the number of MSAs that can be sold, on when they can be sold, and on what employers can offer them are keeping many of the working uninsured from signing up for health insurance. The Republican bills **eliminate these numerical, employer, and sunset restrictions.**

- Democrats set the minimum allowable catastrophic policy deductibles too high for many Americans. The Republican bills **make the deductibles more flexible.**

- The demonstration program does not allow enrollees to fully fund their MSA. The Republican legislation **lets participants fully fund their MSA.**

The Senate bill contains two MSA-enhancement provisions that are not in the House bill:

- Currently, MSA withdrawals for non-medical expenses are taxed as income and hit with a 15 percent surtax. Under S. 1344, so long as a participant continues to have one year's deductible saved in his MSA, non-medical withdrawals are taxed as regular income, without the surtax.

- Federal workers are prohibited from participating in the demonstration program. The Senate bill gives federal workers access to MSAs, which can open an affordable coverage option to the 200,000 federal workers who currently decline coverage.

Meanwhile, the House bill contains two MSA-enhancements that are not in the Senate bill:

- Under the demonstration program, employers and employees may not both make joint MSA contributions. The House bill would allow both employers and employees to make tax-preferred contributions to the employee's MSA.

- The House bill would allow MSAs to be offered in cafeteria plans.

MSAs are a proven tool for bringing health coverage to the uninsured. This is perhaps because MSAs address the needs of those who the Center for Studying Health Systems Change identifies as being at high risk of turning down available coverage:

- MSAs let **workers with poor health** pay their out-of-pocket medical expenses tax-free.

- **Young workers** can save in their MSAs money they would otherwise waste on expensive health insurance that they never use.

- MSAs benefit **low-income workers** for both reasons. They receive a tax-based discount on their out-of-pocket medical expenses and they can sign up for coverage secure in the knowledge that the money they deposit in their MSA is under their control and will be there when they need it.

Further, MSAs can keep premiums reasonable for those with regular medical expenses. This is because MSAs bring into the health insurance pool young and healthy people who were previously uninsured, and whose contributions help lower the premiums of older and less healthy participants. Also, because MSA patients are more cost-conscious (unlike patients who are spending their insurer's money), they help keep medical costs down for everyone.

The greatest challenge we face in the private health insurance market is 44.3 million Americans who lack health coverage. Much of this problem exists because health coverage is too expensive for many employers to provide. But a significant portion of the problem is due to workers declining coverage that their employers do offer. Republicans are meeting this challenge by making health coverage more affordable for employers to offer and employees to accept.

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